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# POLITICAL SCIENCE

## QUARTERLY

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### THE NEW NORMAL IN FOREIGN TRADE

THE year 1921 was the first since the outbreak of the war in which government credit operations did not directly and markedly affect our foreign trade. It therefore gives us some intimation what to expect when the world again settles down to the humdrum routine of working and paying, after the mad orgy of fighting and borrowing and spending that extended from the beginning of the war up to the end of 1920.<sup>1</sup> Sober examination of the new state of affairs is a condition precedent to any intelligent shaping of tariff and trade policy, shipping plans, investment schemes, political designs, and industrial and agricultural development.

During recent years the elementary theory of the balance of international payments has come to be far more widely understood in this country than ever before, but politicians and business men, for the greater part, still wander in Cimmerian darkness when it comes to making practical application of the doctrine. They are still interested almost exclusively in direct efforts to promote export trade or to prevent the products of foreign "cheap labor" from coming into competition with their own goods in their home market. They forget the truism on which the theory of international trade rests, namely, that failing bankruptcy or repudiation, the sum total of debits and credits in the foreign trade of each country must balance each

<sup>1</sup> As the influence of government credit on our foreign trade was strongly felt during 1919 and 1920, those years, for purposes of trade study, are grouped with the war years proper. The term "war period", as here used, accordingly covers the six and a half years from August 1, 1914, to December 31, 1920.

year. In this sense, and in this only, "exports must pay for imports." The international account may be summarized under five chief items: (1) exports and imports of merchandise; (2) exports and imports of gold and silver; (3) interest receivable and payable; (4) payments for current services, such as banking commissions, insurance premiums, ocean freights, tourist expenditures, and immigrant and emigrant remittances; and (5) the temporary loan or the permanent investment of capital. For most modern countries in most years the sum total of the first four debit items is either greater or less than the sum of the corresponding credit items, and the difference is redressed by a corresponding entry on the opposite side under the fifth item, that is, by the borrowing or lending of capital. This import or export of capital works to create a corresponding import or export of goods.

During the years 1898-1914 the foreign trade of the United States was in a position of comparatively stable equilibrium. Each year we exported nearly half a billion dollars' worth of goods more than we imported.<sup>1</sup> In addition, our net exports of gold and silver amounted to the inconsiderable average of eight millions a year. During these seventeen years, our total trade experienced a steady expansion, the value of imports more than doubling, and that of exports increasing in somewhat less proportion. The relation of export to import values, however, changed scarcely at all. An export excess, taking both merchandise and metals into account, averaging \$584,000,000 during 1898-1901, was succeeded by an average of \$451,000,000 during the next decennium, only to be followed by an average of \$603,000,000 during the three years preceding the outbreak of the war. The changing character of our trade during these years has been the subject of frequent comment. Foodstuffs and raw materials formed an increasing proportion of imports, while our growing exports contained a constantly rising proportion of manufactured goods. Business was done at steadily rising prices, too, so the increase of trade

<sup>1</sup> The yearly figures of excess exports varied from a maximum of \$666,000,000 in 1908 to a minimum of \$188,000,000 in 1910.

was less in volume than in value. For the present purpose, however, the important fact is the comparatively fixed difference between export and import values.

Excess exports of merchandise, gold and silver averaging half a billion a year were scarcely sufficient to balance the annual charges we had to meet on account of interest and current services, chiefly freight, tourists' expenditures, and the remittances made by immigrants to friends and relatives abroad. Writing in 1909, Paish made the following well-known estimate of these items (all net):<sup>1</sup>

|                                  |     |         |          |
|----------------------------------|-----|---------|----------|
| Interest and dividends . . . . . | 250 | million | dollars. |
| Freight . . . . .                | 25  | "       | "        |
| Tourist expenditures . . . . .   | 170 | "       | "        |
| Immigrant remittances . . . . .  | 150 | "       | "        |
| <hr/>                            |     |         |          |
| Total . . . . .                  | 595 | million | dollars. |

Paish calculated "that in a year of depression the obligation of the United States to other countries for interest, tourist expenditures, remittances to friends, freight etc., is about \$500,000,000 and that in years of normal trade activity it is about \$600,000,000."<sup>2</sup> If in any year, then, the export excess did not reach these figures, the account was balanced by further borrowing. According to Paish's calculations, while we paid off a certain amount of our foreign debt during 1898-1901, the normal course of events was for capital to flow into the United States, and for repayments to be made but seldom. While other studies have tended to modify Paish's figures in detail, they have confirmed their substantial accuracy. In particular, the careful investigations of the Harvard Committee of Economic Research indicate that our net import of capital during the pre-war period probably averaged about \$50,000,000 a year.<sup>3</sup>

<sup>1</sup> Paish, George, *The Trade Balance of the United States* (National Monetary Commission, 1910), p. 191.

<sup>2</sup> *Ibid.*, p. 192.

<sup>3</sup> The results of these studies are of the highest value for the student of foreign trade. They have been published in the *Review of Economic Statistics* as follows: Bullock, Williams and Tucker, "The Balance of Trade of the United States (1789-

While the net flow of capital was inward up to the very eve of the war, American investors had large and growing holdings abroad, chiefly in Canada and Mexico. Paish put our foreign investments in 1909 at a billion and a half, and Charles F. Speare in the same year estimated them at something between a billion and three quarters and two billions, of which he credited a third to Mexico and a quarter to Canada. American capital, he declared, had been flowing into Mexico during the preceding ten years at the rate of from fifty to seventy-five millions a year.<sup>1</sup> The revolutionary disturbances for a time checked this flow of money southward, but our investment in Canadian lands, forests, mines and industrial enterprises rose rapidly during the years just preceding the war. Our Middle Western farmers alone, emigrating to the prairie provinces, took with them large sums for land purchase, while American capitalists invested heavily in farm and timber lands, and American factories opened Canadian branches. At the outbreak of the war American investments in Canada were placed at \$600,000,000 or more.<sup>2</sup>

These capital exports helped other countries to buy goods from us on credit, and thus swelled the favorable trade balance of the years preceding the war; yet we were not, during this time, actually passing from a debtor to a creditor position. Despite our enormous wealth, our highly developed industry, and our growing financial strength, we were still a financially young country at the outbreak of the war. Investment opportunities here, by comparison with those in other countries, were still so attractive that the net flow of capital was inward. Even by sending out goods and specie to an excess value of half a billion yearly we did not succeed in meeting the annual charges against us on other than merchandise account.

1919)," July, 1919; Vanderlip and Williams, "The Future of Our Foreign Trade (1919)," April, 1920; Williams, "The Balance of International Payments of the United States for the Year 1920" (containing revised figures for the war years), June, 1921; "Special Letter" of December 10, 1921. I have made use of these studies throughout.

<sup>1</sup> *North American Review*, July, 1909.

<sup>2</sup> Skelton, *The Canadian Dominion*, p. 237.

The war changed this situation primarily by leading Americans to sell abroad, during the war period, goods to a value of eighteen billion dollars in excess of their foreign purchases during the same time. This was made possible by unprecedented credit operations on both public and private account. The detailed figures of export and import values, expressed in millions of dollars, are as follows:

|                     | Merchandise  |              |              | Gold and Silver |              |              | Com-<br>bined<br>Balance |
|---------------------|--------------|--------------|--------------|-----------------|--------------|--------------|--------------------------|
|                     | Ex-<br>ports | Im-<br>ports | Bal-<br>ance | Ex-<br>ports    | Im-<br>ports | Bal-<br>ance |                          |
| Aug.-Dec., 1914 . . | 908          | 649          | 259          | 131             | 31           | 100          | 359                      |
| 1915 . .            | 3,555        | 1,779        | 1,776        | 85              | 486          | —401         | 1,375                    |
| 1916 . .            | 5,483        | 2,392        | 3,091        | 226             | 718          | —492         | 2,599                    |
| 1917 . .            | 6,234        | 2,952        | 3,282        | 456             | 606          | —150         | 3,132                    |
| 1918 . .            | 6,149        | 3,031        | 3,118        | 294             | 133          | 161          | 3,279 <sup>1</sup>       |
| 1919 . .            | 7,920        | 3,904        | 4,016        | 607             | 166          | 441          | 4,457 <sup>1</sup>       |
| 1920 . .            | 8,228        | 5,278        | 2,950        | 436             | 505          | — 69         | 2,881 <sup>1</sup>       |
| Total. . . . .      | 38,477       | 19,985       | 18,492       | 2,235           | 2,645        | —410         | 18,082 <sup>2</sup>      |

Williams points out that the export figures of 1920 are probably two hundred millions too large, owing to the abrupt drop of values during that year, which led to the actual sale of some goods at prices below those stated in the manifests. On the other hand, Thomas W. Lamont calls attention to the fact that "during the period of our participation in the war our government exported great quantities of goods not only for its own use but also for sale to its Allies. These government exports are unrecorded."<sup>3</sup> It is to be observed, however, that the Treasury on November 15, 1921, held obligations of foreign governments received from the Departments of War and the

<sup>1</sup> The sum of \$76,000,000 should be added for 1914-18, \$91,000,000 for 1919, and \$103,000,000 for 1920, to cover exports of Federal Reserve notes and other currency during those years.

<sup>2</sup> Adding exports of Federal Reserve notes, the total becomes \$18,352,000,000.

<sup>3</sup> *Annals of the American Academy of Political and Social Science*, vol. 87, p. 100 (January, 1920).

Navy, representing sales of surplus war materials, of an aggregate value of \$574,673,710.21,<sup>1</sup> thus covering the item mentioned by Mr. Lamont. This sum is not included in the figures of exports given above or in those of financing to be given below. Leaving all corrections aside, our excess exports, taking both merchandise and metals into account, amounted to somewhat more than eighteen billion dollars during the war period.

Turning to invisible items, the account for interest and services during the same period, contrary to the popular idea, ran heavily against us, though not at the pre-war rate. Following the revised figures of J. H. Williams, as published in the *Review of Economic Statistics* for June, 1921, we reach the following result (in millions of dollars):

|                                  | Debit | Credit           |
|----------------------------------|-------|------------------|
| Interest (net) . . . . .         |       | 620 <sup>2</sup> |
| Shipping charges (net) . . . . . | 193   |                  |
| Relief . . . . .                 | 211   |                  |
| Tourist expenditures . . . . .   | 200   |                  |
| Immigrant remittances . . . . .  | 1,800 |                  |
| Total . . . . .                  | 2,404 | 620              |
| Net Debit . . . . .              | 1,784 |                  |

It need not be said that these figures at best are estimates, with a wide margin of error. In particular, the investigations of the Division of Research and Analysis of the Federal Reserve Board indicate net shipping earnings during 1919 and 1920 approximating \$360,000,000, against Mr. Williams' figure of \$166,000,000, for the same period.<sup>3</sup> If the first figure be accepted, the net balance of shipping earnings for the entire war

<sup>1</sup> *Annual Report of the Secretary of the Treasury for 1921*, p. 33.

<sup>2</sup> Including \$437,000,000 interest on government advances paid during 1918 and 1919, to some extent out of further advances. See *Annual Report of the Secretary of the Treasury for 1920*, p. 57.

<sup>3</sup> *Federal Reserve Bulletin*, April, 1921, pp. 400-409; also February, 1921, pp. 183-188; August, 1921, pp. 931-935; November, 1921, p. 1263.

period turns slightly in our favor, and the total invisible balance against us on account of interest and services is reduced to something less than \$1,600,000,000. Deducting this amount from the combined trade balance of the war period, \$18,352,000,000, we have left about \$16,750,000,000 to be covered by credit operations.

Of this amount, government financing took care of nearly eleven billions. Cash advances to the Allies under the ten-billion-dollar credits of 1917 and 1918 totaled \$9,494,519,000. In addition, beginning with January 1, 1918, the money needed by the United States for war expenditures in Great Britain, France and Italy was provided by the governments of those countries under an arrangement whereby the equivalent in dollars was made available to them to meet their war expenditures here, thus virtually increasing their credits by that amount. We exported the consumers and the goods, and paid the bills into the bargain. The sum thus advanced was \$1,490,557,111, which brings the total of government credit available for export financing to an amount just under eleven billions.<sup>1</sup>

In the field of private financing, the operations chiefly important were the return of American securities and the floating of foreign loans in our market. Friedman states that about two billion dollars' worth of American securities were returned from August, 1914, to April, 1917,<sup>2</sup> and Williams gives the same figure for the period from July, 1914, to the end of December, 1918, adding \$350,000,000 for the next two years.<sup>3</sup> A total of \$2,350,000,000 for the value of American securities bought back during the entire war period is pretty clearly not excessive.

According to a tabulation made by J. P. Morgan and Company for the Harvard Committee of Economic Research, the total of foreign government, state, municipal and private issues here from the outbreak of the war up to the end of 1919 and

<sup>1</sup> The specific figures in this paragraph are those given by Nicholas Kelley, former Assistant Secretary of the Treasury, in a letter to the Harvard Committee of Economic Research.

<sup>2</sup> *International Finance and its Reorganization*, p. 353.

<sup>3</sup> *Review of Economic Statistics*, June, 1921.

outstanding at the latter date was not less than \$2,150,000,000. The issues of 1919 and 1920 did not equal the maturities of those years, falling short in 1920 by \$65,000,000. Even so, the issues outstanding on January 1, 1921, had served to finance exports to a value just under twenty-one hundred millions.

The American investor during the war period, however, was not simply buying back American securities and absorbing foreign bond issues. His capital was also going directly into American companies working Canadian mines and factories and buying Canadian land and timber, operating Mexican and Colombian and Venezuelan oil wells, Cuban sugar mills and plantations, Caribbean fruit farms, and the thousand and one other undertakings that are now being so vigorously pushed all over this continent, to say nothing of American enterprises in China and the Orient, and now even in Europe. Such investment does not appear in figures of foreign bond flotation, but it covers exports of American machinery and equipment and supplies. Williams' estimate of half a billion for such investment during the war period is certainly conservative.

The same may be said for his figure of \$175,000,000 covering American speculation during 1919 and 1920 in the internal bonds and depreciated currencies of European countries. Other guesses have raised this figure to fantastic amounts.

Bringing together these items of public and private financing, and estimating all uncertain amounts conservatively, we reach the following result (in millions of dollars):

|                                                       |       |
|-------------------------------------------------------|-------|
| Government advances . . . . .                         | 9,495 |
| Government currency purchases . . . . .               | 1,491 |
| American securities returned . . . . .                | 2,350 |
| Foreign bonds issued here . . . . .                   | 2,085 |
| Direct American investments abroad . . . . .          | 500   |
| European internal bonds and currency bought . . . . . | 175   |

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Total . . . . . 16,096

Even upon a conservative estimate, we thus come within less than three-quarters of a billion of covering the entire balance to be accounted for. Adding in the above item of \$175,000,000 for currency purchases, the total unfunded balance at

the end of 1920 is still below \$850,000,000. These figures are hard to reconcile with the Federal Reserve Board's revised estimate of \$2,203,000,000 as the net unfunded credit balance of the United States on January 1, 1921,<sup>1</sup> much less can they be reconciled with the higher estimates of other observers.

Waiving the question of the exact amount of this balance, however, it is plain that we began the year 1921 in a new trade and investment position. For immediate purposes, however, the new position differs less than is commonly supposed from the old one, and dogmatic predictions of an early excess of imports should be received with caution. In the first place, no one actually knows just how much or how little the European government obligations held by the Treasury are worth. According to the Annual Report of the Secretary of the Treasury for 1921, on November 15 last they amounted to \$11,272,000,000,<sup>2</sup> a sum which covered cash advances, obligations received on account of sale of surplus war materials and relief operations, and unpaid accrued interest to the latest date. The interest on this great sum, at  $4\frac{1}{2}$  per cent, would come to half a billion dollars a year. But the Refunding Commission has been given full power to extend the time of payment of both principal and interest; and even assuming the ability of our debtors to pay (an ability at present non-existent, except in the case of Great Britain), no one has yet succeeded in figuring in what form we are to take payment without further upsetting our already embarrassed foreign trade. In sober fact, we have given Europe on government account ten billion dollars' worth of goods, and we have something more than eleven billions in more or less doubtful paper to show for it. Great Britain has put an item of £25,000,000 in next year's budget to cover in-

<sup>1</sup> This matter is fully discussed in the *Federal Reserve Bulletin* for November, 1921, and it is suggested that the above figure should be increased by \$500,000,000 to cover European settlements on account of canceled war contracts, and by \$200,000,000 to cover deposit balances transferred by Far Eastern banks from London to New York. Including an estimated increase of \$505,000,000 during the first nine months of 1921, the total unfunded balance on October 1, 1921, is placed at \$3,408,000,000.

<sup>2</sup> On May 15, 1922, this amount had risen to \$11,456,383,059. See *Federal Reserve Bulletin*, June, 1922, p. 645.

terest payments on her part of the loan, and we are told that such payments are to begin in October, but the item even of interest on the Treasury holdings of foreign obligations would best be held in abeyance, in estimating our international commercial situation, until the whole problem shall have been further clarified.

That aside, our private interest account has been radically altered. Williams puts foreign investments in the United States at the beginning of 1921 not below \$1,500,000,000 and American investments abroad not below \$3,500,000,000, yielding us an annual net interest of a hundred millions, against a pre-war net interest payment on our part amounting to \$160,000,000, according to Williams, or \$250,000,000, if Paish's figures be accepted. The Federal Reserve Board, moreover, figures the net interest receivable during 1920 at \$125,000,000, and during the first nine months only of 1921 at \$150,000,000. Unless its large figures for the unfunded balance already referred to be accepted, however, it is difficult to reach such a result. The sum of \$150,000,000 is therefore taken as covering interest receivable during the entire year 1921. Even so, the change in our pre-war balance of payments is sufficiently striking, and it is practically the only marked change in our favor. Let us glance at the other elements.

Our much-touted merchant marine, be it said with all frankness, has practically collapsed with the first touch of adversity. The enormous growth of our tonnage during the war is a well-known story, and during 1920 almost exactly half the entrances and clearances from our harbors were of American vessels. Even in that banner year, however, they brought but 42 per cent of our imports, and carried away less than 44 per cent of our exports by value. During the past year, under conditions of severe depression in ocean business, entrances and clearances of American vessels were still practically half the entire tonnage going in and out, but they carried only 35 and 36 per cent respectively of our imports and exports, and during December the figures shrank to 28.5 and 30 per cent, rising again to 33.5 and 36.9 per cent as the average of January and February.

The Federal Reserve Board figures our net shipping earnings during the first nine months of 1921 at \$50,000,000. For the entire year, however, the total value of imports carried in foreign vessels was \$1,422,000,000, while the exports carried in American vessels were only \$1,402,000,000. The Board's investigations indicated that by the beginning of 1921 we were working back toward the widely accepted pre-war freight-to-value ratios of three and five per cent on imports and exports respectively. Applying these figures, we should get net freights receivable of about \$28,000,000 for the entire year. To raise that figure to \$50,000,000 for the year appears ultra-generous.

Tourist expenditures during nine months of 1921 are estimated by the Federal Reserve Board at \$125,000,000, practically the same as Paish's and Williams' pre-war rate of \$170,000,000 per year, while immigrants' remittances during the first three-quarters are placed at \$300,000,000, or \$400,000,000 for the year. As the statisticians of the Board evince no inclination to exaggerate the invisible items against us, it is probably safe to accept these figures as not being overstatements.

A provisional statement of the 1921 account for interest and services, then, erring, if at all, probably on the side of under-estimating the net amount due from us, stands somewhat as follows (millions of dollars) :

|                                | Debit | Credit |
|--------------------------------|-------|--------|
| Interest . . . . .             | ..    | 150    |
| Shipping payments . . . . .    | ..    | 50     |
| Tourist expenditures. . . . .  | 170   |        |
| Immigrant remittances. . . . . | 400   |        |
| Total . . . . .                | 570   | 200    |
| Net Debit . . . . .            | 370   |        |

On current account for interest and services during 1921 we were thus indebted to the world by at least a third of a billion, as against half a billion or more before the war. Aside from the export of capital, the tendency will manifestly be for this

balance to decline if interest payments are begun on any part of the government's foreign debt holdings, unless there should be a corresponding change in the account for services not readily foreseeable.

In view of these facts, let us examine the course of trade and investment in 1921. During that year, our excess of merchandise exports, which in 1920 had fallen more than a billion from the four billions of 1919, suffered a further billion-dollar drop. And in 1921 out of the \$1,976,000,000 excess exports of merchandise \$680,000,000, or a full third, was paid for by imports of gold and silver (all but \$12,000,000 being gold). In addition, net imports of United States paper currency, which had been exported in considerable amounts since the armistice, were estimated by the Federal Reserve Board at \$100,000,000 during the first nine months of the year. It is clear that a country which already has a plethora of gold—forty per cent of the world's stock—cannot long continue to import gold at such a rate, and this source of payment for excess exports must soon be dried up. Indeed, the golden flood, which reached \$86,000,000 during March, 1921, and averaged \$67,000,000 during the seven months ending with September, had receded to less than \$30,000,000 in December, and averaged only \$20,000,000 monthly during the first five months of 1922.

Along with this decline there has occurred a striking change in our trade. It can be shown best by giving the quarterly trade balances over the past two years. Expressed in millions of dollars, they run thus:

|                          | Merchandise |      | Gold and Silver |      | Combined |      |
|--------------------------|-------------|------|-----------------|------|----------|------|
|                          | 1920        | 1921 | 1920            | 1921 | 1920     | 1921 |
| First quarter . . . . .  | 721         | 852  | 128             | —159 | 850      | 693  |
| Second quarter . . . . . | 580         | 361  | —31             | —190 | 549      | 171  |
| Third quarter . . . . .  | 420         | 465  | —11             | —211 | 409      | 254  |
| Fourth quarter . . . . . | 1228        | 297  | 167             | —122 | 1395     | 175  |

During the last three months of 1920 our favorable export

balance came to almost a billion and a quarter; during the corresponding period of 1921, it was under \$300,000,000. Yet more striking, taking gold and silver movements into account, the figures of excess exports for the two periods become \$1,395,000,000 and \$175,000,000. The corresponding figure for the first quarter of the present year is only \$84,000,000, and for the two months of April and May, \$140,000,000.

It deserves notice further that the decline in the merchandise balance during the last quarter of 1921 was effected both by a growth of imports and by a shrinkage of exports. During a period of a year ending with June, 1921, there was a precipitous drop in the value of imports, the monthly figures falling from \$553,000,000 in June, 1920, to \$186,000,000 a year later. For the next four months they remained stationary, and during the last two months of the year rose by fifty millions to \$237,000,000 in December, averaging \$232,000,000 per month during the first five months of the present year.

The recovery in imports brought no corresponding improvement in exports, however. The phenomenal drop from \$720,000,000 in December, 1920, to \$340,000,000 in April was followed by six months of stability; but then, instead of an increase, as in the case of imports, there came a renewed decline to \$296,000,000 in December and a further sag to \$251,000,000 in February, which was followed, however, by a monthly average of \$319,000,000 during the next three months. The December excess of exports, which did not reach \$59,000,000, was the smallest monthly figure since October, 1914. If gold and silver imports be deducted, the December figure falls to \$31,000,000, while that for February is only \$13,000,000.

What happened during 1921 was an adjustment of the comparative export and import values to the requirements of the new balance of payments, and the figures already given indicate that the December export excess was far nearer the new normal (leaving investment out of account) than was the favorable balance of early 1921. If our export balance is to be raised and kept above a third of a billion, it can clearly be done only by the export of our capital.

In view of the impoverishment of the great European lenders and the rapid accumulation of capital here, a net outflow appears natural, indeed almost inevitable. Yet some observers take the view that the amount will be small. Thus Mr. C. Reinold Noyes, writing in the *North American Review* for February, 1922, says: "As a people we are more likely to engage our attention in elevating our standard of living at home than in spreading out to cover the world with our investment and trade. . . . The international banker has his place. And it will be a place of increasing importance. But the business of finding funds for public utilities and housing will have a far greater development."

It is not impossible to find support for such views in the events of the years since the armistice. We heard a great cry that the American banker was to finance the world, but when it came to the sober business of supplying the funds, he preferred to keep his money at home, despite the exhortations of leading financiers and public officials. In December, 1920, the American Bankers' Association officially endorsed the formation of a great Foreign Trade Financing Corporation, with a capital of a hundred millions. After more than a year of strenuous effort, the Executive Committee of the Committee on Organization announced "that the immediate present is not regarded by the Committee as an opportune time to continue effort to form the corporation which it has been planned to organize under the Edge law, to extend long-term credits in connection with this country's export trade, and through the sale of debentures to encourage American investment in foreign securities."<sup>1</sup>

This melancholy failure in the field of foreign trade financing does not stand alone. The *Federal Reserve Bulletin* for November, 1921, says: "The striking aspect of the year's financial developments on the banking side in connection with foreign trade is found in the fact that there has been a steady and extensive withdrawal of American banking institutions from the foreign field. . . . Thus during the latter half of 1920 and the

<sup>1</sup> *Commercial and Financial Chronicle*, Jan. 21, 1922.

first six months of 1921 a very great curtailment of the commercial credit previously extended by American interests to foreigners undoubtedly occurred.”<sup>1</sup> Commenting on the reduction in foreign trade acceptances outstanding in our markets, to \$600,000,000 at the beginning of 1921 and to \$450,000,000 by November, the *Bulletin* states that the foreign credit corporations established by many of the banks have been disestablished, and the assets distributed to the stockholders, so as to bring about “a practical retirement from at least certain branches of the export trade.” This retirement, together with the easier credit terms being offered by foreign shippers, “is undoubtedly tending to restore the hold of such countries upon those markets. This tendency is reported in its most evident form in South America and the East.”<sup>2</sup> The *Bulletin* for June, 1921, listed eleven foreign-trade financing corporations, which among them had a capital, surplus, and undivided profits of only \$78,000,000, and assets of \$475,000,000. This list included the chief institutions of the sort, so it will be observed that at best this development had not proceeded far, and even these institutions are in some cases withdrawing. Commenting on the liquidation of one of them, the Park-Union Foreign Banking Corporation, formed by the National Park Bank and the Union Bank of Canada, the *Journal of Commerce* in its issue of March 15, 1922, said: “Banking interests view the movement as one which is more or less general on the part of institutions with foreign trade relationships. The question which has been raised here is as to whether the banks with special organizations will absorb such organizations into their systems or gradually liquidate the business which was built up on the wave of war-time prosperity.”<sup>3</sup> There is no evidence yet of any general readiness on the part of our banks to enter systematically into the field of foreign trade financing.

It is to be noted, further, that the flotation of foreign bond issues in the United States during 1919 and 1920 lacked \$144,-

<sup>1</sup> P. 1267.

<sup>2</sup> P. 1268.

<sup>3</sup> Quoted in the *Commercial and Financial Chronicle*, March 18, 1922.

000,000 of equaling the maturities of foreign loans paid off here during those two years. Williams concludes as a result of his study that the part played by long-time private investment in financing the trade balance from the armistice up to the end of 1920 was small. He estimates the net export of American capital in all forms during 1919 and 1920 at not more than \$780,000,000. The Federal Reserve Board, utilizing Williams' figures in part, arrives at an estimate of approximately \$810,000,000.

In judging the significance of these figures, the disturbed political conditions of 1919 and 1920 should be borne in mind, however. If a sum even approaching three-quarters of a billion was placed abroad during those years under such conditions, a growing outflow of capital, which may well attain very large dimensions, may easily take place as the world gradually settles down to paying its way. The Federal Reserve Board places the net private investment of American capital abroad during the first nine months of 1921 at \$250,000,000, and the return of American securities during the same period at \$40,000,000. This would be at the rate of practically \$400,000,000 for the year, and the evidence available indicates that the actual placing of American capital was in excess of that figure.

A compilation courteously furnished by the Guaranty Company of New York gives the total of foreign government dollar loans issued in New York during 1921 as \$511,160,000, against maturities for the same period approximating \$202,000,000. These figures show an increased investment of more than three hundred millions. According to the same authority, the dollar loans issued by foreign corporations and American corporations doing their principal business in foreign countries amounted to \$166,542,166. Adding only the forty millions of American securities returned reported by the Federal Reserve Board up to September 30, we thus reach a round half-billion, without making allowance for investments placed directly in other than bond form. It seems fairly safe, accordingly, after making all allowances, to assume an outward flow of capital during the year coming to at least a half-billion.

Yet further, foreign issues publicly advertised in New York during the last quarter of 1921 totaled \$208,000,000, and during the first quarter of 1922, \$283,000,000. The total for the six months ending with March, 1922, was thus well in excess of the total new foreign offerings of the entire year 1919 (\$436,000,000) and almost equal to the \$506,000,000 of 1920.

Speaking before the American Manufacturers' Export Association on June 12, 1922, Mr. Pierre Jay said: "In the twelve months up to May 1 about \$1,000,000,000 of foreign loans of many countries, cities and industries were readily taken here. The readiness of the country to absorb this huge amount of foreign loans has been surprising."<sup>1</sup> The success of recent foreign bond offerings has been so great that bankers are bringing out large issues in rapid succession.

A further indication of the growing importance of such loans is the public announcement made by the Department of State on March 3, 1922—an announcement that has not received from the press the attention that its importance warrants. The Department says in part:

At a conference held last summer between the President, certain members of the Cabinet and a number of investment bankers, the interest of the government in the public flotation of issues of foreign bonds in the American market was informally discussed and the desire of the Government to be duly and adequately informed regarding such transactions before their consummation, so that it might express itself regarding them if that should be requested or seem desirable, was fully explained. Subsequently the President was informed by the bankers that they and their associates were in harmony with the Government's wishes and would act accordingly.

The desirability of such cooperation, however, does not seem sufficiently well understood in banking and investment circles.

The flotation of foreign bond issues in the American market is assuming an increasing importance and, on account of the bearing of such operations upon the proper conduct of affairs, it is hoped that American concerns that contemplate making foreign loans will inform the Department of State in due time of the essential facts and of subsequent developments of importance. Responsible American bankers

<sup>1</sup> *Commercial and Financial Chronicle*, June 17, 1922, p. 2667.

will be competent to determine what information they should furnish and when it should be supplied.

. . . The Department believes that in view of the possible national interests involved it should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or is not objection to any particular issue.

Commenting on this announcement, the well-informed *Journal of Commerce* on March 10 said:

Every loan abroad of any importance virtually will be visaed by the Treasury as to its purpose and object.

The most important effect of the new policy, Administration leaders indicated today, would be that of withholding American financial assistance from those countries and those interests "inimical to the best interests of the United States."

Another object . . . is that of checking the heavy influx of foreign securities into the country, diverting investment capital from constructive uses and demoralizing the investment field. . . .

Officials made it plain, however, that the Administration favors rather than opposes the purchase by American citizens of foreign obligations.

In reply to a letter of inquiry, the Assistant Secretary of State writes, under date of April 5, 1922: "The American diplomatic and consular officers give such aid as is proper to American interests desirous of investigating conditions in foreign countries with a view to the possible granting of loans. Every effort is made to cooperate closely in this work with the Departments of Commerce and the Treasury."

The possible significance of this policy for the American export trade is suggested by the following Washington dispatch appearing in the *New York Evening Sun* of January 6, 1922:

An arrangement for cooperation between the Government and American bankers to promote American banking and industry in Europe and in South American countries was completed today. The understanding was reached between Secretary of Commerce Hoover and Thomas B. McAdams, of the American Bankers' Association.

Under the plan agents of the Department of Commerce will investigate conditions in countries asking for loans to carry on public or private projects. Should conditions be favorable, the American attaché

will so report to the Commerce Department. Before the loan is made, however, the applicant will be obliged to promise to purchase materials in this country, thus benefiting both bankers and manufacturing plants. A commercial attaché will be on the ground to observe fulfillment of the contract.

Replying to an inquiry, the Director of the Bureau of Foreign and Domestic Commerce points out that the first paragraph of this dispatch is correct, but makes important corrections regarding the second. First, the foreign representatives of the Department "will not be called upon to approve or disapprove loans", as might easily be inferred from the statement above. In the second place, "the statement that the applicant for loans 'will be obliged to promise to purchase materials in this country' is incorrect. To my knowledge the Department of Commerce has not favored a stipulation so drastic as that and has not gone beyond the suggestion that, when the proceeds of foreign loans are to be used for construction work, a promise should be given that the specifications will be so worded as to give American concerns a fair and equal opportunity in the bidding. Consequently, there is no thought of having the commercial attaché 'observe the fulfillment of the contract.'"

The American foreign investor is thus assured the friendly and active cooperation of the Departments of State and Commerce. The public offer of such cooperation is clear evidence of the Government's belief that a distinct service can be performed to American finance, industry and trade by encouraging the foreign investor. The student will be likely to come to much the same conclusion. No undue importance is to be attached to short-time fluctuations of trade or to temporary vagaries of financing. The experience of 1921 and 1922 indicates clearly enough that the third of a billion dollars now annually due from the United States on invisible account must be augmented by capital exports, if our trade balance is not to adjust itself to the new balance of payments. But despite certain unfavorable developments, there is reason to anticipate a substantial net export of capital. If it occurs (and it seems to be well under way), then our trade balance, at the beginning of

the present year brought down practically to zero, instead of becoming unfavorable, as is confidently predicted by some observers, will in the years just ahead not improbably be maintained at a fairly high figure. Just where it will settle will depend on interest payments on the foreign debt, and especially and chiefly on the willingness of the American investor to send his capital abroad.

It may well be, as suggested by Mr. Noyes in the article already mentioned, that the careers of Great Britain and France are no criterion for the United States. But a sober examination of historical facts and of our present position, especially in view of the developments of the past eighteen months, suggests the probability that we stand at the beginning of a period in which foreign investment will proceed in increasing volume; that such investment will follow much the same lines as those taken by the foreign placings of other highly developed countries; that our export industries will be built up by the use of our investment power; and that our investment, shipping and trade policy will be shaped to meet the common desires of the foreign investment banker and the export manufacturer. In developing that policy we need to avoid the pitfalls of that imperialism which plunged Europe into the great war. If we are wise, we shall not yield to the subtle temptation to increase the immediate gains of our investors and traders by putting the resources of our diplomatic establishment, backed by the threat of strong military and naval forces, indiscriminately at their disposal. For the general profitableness of foreign, as of domestic trade, depends upon its yielding a fair and unforced division of advantages between the two parties to the bargain. The United States is rich and powerful enough to pursue an intelligent and generous trade and investment policy.

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